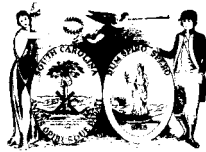


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

June 22, 2005

Mr. Craig G. DeKany, Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

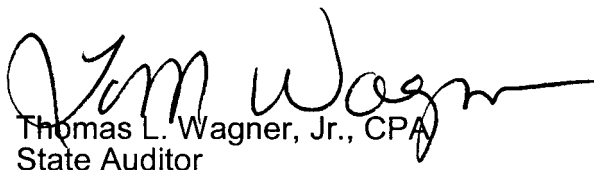
Re: AC# 3-MAN-J1 – Manor Care of Lexington, Inc. d/b/a Heartland of
Lexington Rehabilitation and Nursing Center

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2000 through September 30, 2001. That report was used to set the rate covering the contract period beginning January 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/ksg

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**MANOR CARE OF LEXINGTON, INC.
D/B/A HEARTLAND OF LEXINGTON
REHABILITATION AND NURSING CENTER**

WEST COLUMBIA, SOUTH CAROLINA

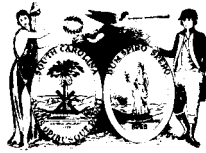
**CONTRACT PERIOD
BEGINNING JANUARY 1, 2003
AC# 3-MAN-J1**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING JANUARY 1, 2003	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD JANUARY 1, 2003 THROUGH SEPTEMBER 30, 2003	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2001	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 31, 2005

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Manor Care of Lexington, Inc. d/b/a Heartland of Lexington Rehabilitation and Nursing Center, for the contract period beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of Manor Care of Lexington, Inc. d/b/a Heartland of Lexington Rehabilitation and Nursing Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

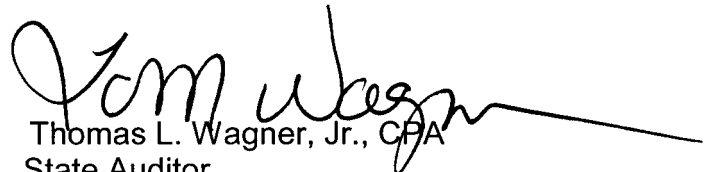
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Manor Care of Lexington, Inc. d/b/a Heartland of Lexington Rehabilitation and Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Manor Care of Lexington, Inc. d/b/a Heartland of Lexington Rehabilitation and Nursing Center dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 31, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-MAN-J1

	01/01/03- <u>09/30/03</u>
Interim Reimbursement Rate (1)	\$111.65
Adjusted Reimbursement Rate	<u>104.58</u>
Decrease in Reimbursement Rate	\$ <u><u>7.07</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period January 1, 2003 Through September 30, 2003
 AC# 3-MAN-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$51.55	\$62.89	
Dietary		9.46	11.21	
Laundry/Housekeeping/Maintenance		<u>6.62</u>	<u>9.67</u>	
Subtotal	\$ <u>5.86</u>	67.63	83.77	\$ 67.63
Administration & Medical Records	\$ <u>-</u>	<u>17.50</u>	<u>12.77</u>	<u>12.77</u>
Subtotal		85.13	<u>\$96.54</u>	80.40
<u>Costs Not Subject to Standards:</u>				
Utilities		2.83		2.83
Special Services		.01		.01
Medical Supplies & Oxygen		4.29		4.29
Taxes and Insurance		1.70		1.70
Legal Fees		<u>.08</u>		<u>.08</u>
TOTAL		<u>\$94.04</u>		89.31
Inflation Factor (3.70%)				3.30
Cost of Capital				10.22
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.86
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.11)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$104.58</u>

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-MAN-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,496,269	\$ -	\$ 11,909 (4) 79,914 (5) 2,274 (5)	\$2,402,172
Dietary	449,857	-	9,220 (5)	440,637
Laundry	66,184	-	1,995 (5)	64,189
Housekeeping	174,359	903 (6)	5,669 (5) 874 (7)	168,719
Maintenance	76,655	376 (6)	854 (5) 373 (7)	75,804
Administration & Medical Records	823,988	2,890 (6)	6,949 (5) 1,490 (5) 2,886 (7)	815,553
Utilities	132,118	647 (6)	648 (7)	132,117
Special Services	525	4,149 (8)	4,158 (5)	516
Medical Supplies & Oxygen	206,001	-	873 (5) 5,003 (8)	200,125
Taxes and Insurance	231,717	1,110 (6)	153,096 (3) 380 (7)	79,351
Legal Fees	3,691	14 (6)	15 (7)	3,690

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-MAN-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	491,207	21,083 (1) 1,268 (6) <u>39,284 (9)</u>	79,052 (2) 908 (7) <u> </u>	472,882 <u> </u>
Subtotal	5,152,571	71,724	368,540	4,855,755
Ancillary	204,914	-	-	204,914
Nonallowable	348,510	79,052 (2) 153,096 (3) 113,396 (5) 6,084 (7) <u>854 (8)</u>	21,083 (1) 7,208 (6) 39,284 (9) <u> </u>	633,417 <u> </u>
Total Operating Expenses	<u>\$5,705,995</u>	<u>\$424,206</u>	<u>\$436,115</u>	<u>\$5,694,086</u>
Total Patient Days	<u>46,253</u>	<u>350 (10)</u>	<u>-</u>	<u>46,603</u>
Total Beds	<u>132</u>	Cost of Capital Patient Days		<u>46,253</u>

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MAN-J1

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
1	Fixed Assets	\$269,015	
	Other Equity	272,101	
	Cost of Capital	21,083	
	Accumulated Depreciation		\$541,116
	Nonallowable		21,083
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	79,052	
	Cost of Capital		79,052
	To adjust depreciation expense to comply with capital cost policy		
	State Plan, Attachment 4.19D		
3	Nonallowable	153,096	
	Taxes and Insurance		153,096
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Retained Earnings	11,909	
	Nursing		11,909
	To properly charge expense applicable to the prior period		
	HIM-15-1, Section 2302.1		
5	Nonallowable	113,396	
	Nursing		79,914
	Restorative		2,274
	Dietary		9,220
	Laundry		1,995
	Housekeeping		5,669
	Maintenance		854
	Administration		6,949
	Medical Records		1,490
	Medical Supplies		873
	Special Services		4,158
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MAN-J1

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Housekeeping	903	
	Maintenance	376	
	Administration	2,890	
	Legal	14	
	Utilities	647	
	Taxes and Insurance	1,110	
	Cost of Capital	1,268	
	Nonallowable		7,208
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable	6,084	
	Housekeeping		874
	Maintenance		373
	Administration		2,886
	Legal		15
	Utilities		648
	Taxes and Insurance		380
	Cost of Capital		908
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Special Services	4,149	
	Nonallowable	854	
	Medical Supplies		5,003
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
9	Cost of Capital	39,284	
	Nonallowable		39,284
	To adjust capital return State Plan, Attachment 4.19D		

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MAN-J1

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Memo Adjustment: To increase total patient days by 350 to 46,603		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>977,231</u>	\$ <u>977,231</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-MAN-J1

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.4607</u>	<u>2.4607</u>	
Deemed Asset Value (Per Bed)	38,431	38,431	
Number of Beds	<u>120</u>	<u>12</u>	
Deemed Asset Value	4,611,720	461,172	
Improvements Since 1981	2,172,983	9,681	
Accumulated Depreciation at 9/30/01	<u>(2,225,955)</u>	<u>(79,358)</u>	
Deemed Depreciated Value	4,558,748	391,495	
Market Rate of Return	<u>.0577</u>	<u>.0577</u>	
Total Annual Return	263,040	22,589	
Return Applicable to Non-Reimbursable Cost Centers	(1,253)	(108)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>4</u>	<u>-</u>	
Allowable Annual Return	261,791	22,481	
Depreciation Expense	168,327	21,273	
Amortization Expense	-	-	
Capital Related Income Offsets	(75)	(7)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(806)</u>	<u>(102)</u>	<u>Total</u>
Allowable Cost of Capital Expense	429,237	43,645	\$472,882
Total Patient Days (Minimum 96% Occupancy)	<u>42,048</u>	<u>4,205</u>	<u>46,253</u>
Cost of Capital Per Diem	\$ <u>10.21</u>	\$ <u>10.38</u>	\$ <u>10.22</u>

HEARTLAND OF LEXINGTON REHABILITATION AND NURSING CENTER

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-MAN-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.93	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$10.92</u>	<u>\$10.38</u>
Reimbursable Cost of Capital Per Diem	\$10.22	
Cost of Capital Per Diem	<u>10.22</u>	
Cost of Capital Per Diem Limitation	\$ <u>-</u>	

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